

# ANALYSIS OF THE CAPACITIES OF SOCIAL ENTERPRISES IN NORTH MACEDONIA

## POLICY STUDY







**USAID**  
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# CONTENT

List of tables and figures .....	6
List of abbreviations .....	6
1 INTRODUCTION .....	7
1.1 History of the social enterprises in North Macedonia .....	8
2 METHODOLOGY AND SAMPLE DESCRIPTION .....	9
2.1 Social enterprises in North Macedonia: current state .....	10
3 ANALYSIS OF THE CAPACITIES OF SOCIAL ENTERPRISES IN NORTH MACEDONIA .....	11
3.1 Entrepreneurial / economic dimension of social enterprises .....	12
3.1.1 Challenges in the development of the economic dimension .....	15
3.2 Social dimension .....	16
3.3 Good governance .....	18
4 CAPACITY BUILDING OF THE SECTOR: CHALLENGES AND NEEDS .....	20
5 CONCLUSION .....	22
6 RECOMMENDATIONS .....	25
6.1 Public policy recommendations .....	26
6.2 Recommendations for traditional business (profit oriented only) .....	26
6.3 Recommendations for social enterprises.....	26
LITERATURE .....	27

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## **LIST OF TABLES, GRAPHS AND FIGURES**

Figure 1: Overview of the challenges of social enterprises in the development of the economic dimension

## **LIST OF ABBREVIATIONS**

<b>LLC</b>	Limited Liability Company
<b>SMLLC</b>	Single Member Limited Liability Company
<b>EU:</b>	European Union
<b>EMES:</b>	International Research Network
<b>MLSP:</b>	Ministry of Labor and Social Policy
<b>PR:</b>	Public Relations
<b>SE:</b>	Social enterprises

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## 1 INTRODUCTION

In the Republic of North Macedonia, the development of social enterprises is at the very beginning. The concept modestly appears in part of the public policy, but the political recognition of the sector is far from adequate, strategic and visionary. The government introduced social entrepreneurship in its work program for the first time (2017-2020), envisaging the adoption of a law on social entrepreneurship, which would facilitate access to the labor market for socially disadvantaged groups of citizens. It is stipulated that disadvantaged groups will be able to manage the enterprise, to make decisions for managing the realized revenues and investing them in social purposes. In the official government strategies, however, the concept of a social enterprise was first introduced in broader strategies for cooperation with the civil society sector (2012-2017), where a more general measure for the development of a wider concept is foreseen: social economy. The measure envisages activities that explicitly target CSOs with economic activities, leaving aside other models that form the spectrum of social enterprises. The same vision is also present within the current strategy (2018-2020) in which social enterprises are seen only as a mechanism for ensuring financial sustainability for the civil sector.

**The existing legislation in the Republic of North Macedonia does not recognize and regulate social enterprises and social entrepreneurship because there is no common understanding of the concepts.** Both concepts emerged during the discourse of the third sector and, in general, there is a conceptual confusion when publically discussing them. The development of social enterprises in North Macedonia is associated with recent developments in the third sector, such as limited financial support for services provided by civil society organizations, decentralization of the social protection system and increased impact and financial support of the donor community.

**The entities making up the spectrum of social enterprises in the country are diverse.** Despite the absence of specific legal forms for social enterprises, some of the existing legal acts provide for the establishment and operation of entities that can be recognized as social enterprises, such as civil society organizations and foundations, cooperatives, protective companies, chambers of crafts, agricultural cooperatives, as well as the informal waste collection sector that has the potential to be transformed through social entrepreneurship.

**During 2018/2019, the Government of the Republic of North Macedonia worked on reforms in the public procurement and social protection system, which provide a stimulating legal framework for the development of social enterprises.** With the new **Law on Public Procurement** (Official Gazette of the Republic of North Macedonia, No. 24/2019), the legal framework of the country for the first time regulates the possibility of introducing reserved procurement. It entered into force on 1 April 2019. The law promotes the concept of social procurement for the first time, which enables the contracting authority to reserve the right to participate in a public procurement procedure of economic operators whose main goal is the social and professional integration of persons with disabilities or persons from socially disadvantaged groups, that reinvest the profits for that purpose, in accordance with the law. In this case, at least 30 percent of the employees in the economic operator are people with disabilities or persons from socially disadvantaged/excluded groups. The law stipulates that the economic operator must fulfill the following conditions: 1) provision of public services only in the field of health, social and cultural services; 2) the profit is reinvested for the purpose of achieving the goals of the organization in accordance with the law; 3) the management or ownership structure of the organization is based on employee ownership, i.e. it requires active participation of employees, users or stakeholders. The new Law on Social Protection, which during the execution of the research was in the parliamentary procedure, envisages greater engagement of the local self-government units in the social mapping of the needs of the citizens at the local level. The reformed social protection system envisages the promotion and development of social services that will be provided in the home of the user, in the community and in the family, as well as innovative and interventional social services.

Regarding the provision of social services, involvement of the local self-government, as well as

the associations of citizens, natural persons and the private sector in the provision and delivery of services in the community is enabled. In fact, all these services represent an opportunity for the development of new social enterprises, which would satisfy the demand for services at the local level.

Public policy reforms are expected to have an impact on the ecosystem in which social enterprises operate in the country. But, at present, they exist in an undeveloped ecosystem which does not have capacities to address the current challenges and obstacles to social enterprises. The conducted analysis of the capacities of the social enterprises provides a detailed insight into the existing capacities of the sector in terms of economic sustainability, contribution to society, communities and users (social dimension) and governing practice.

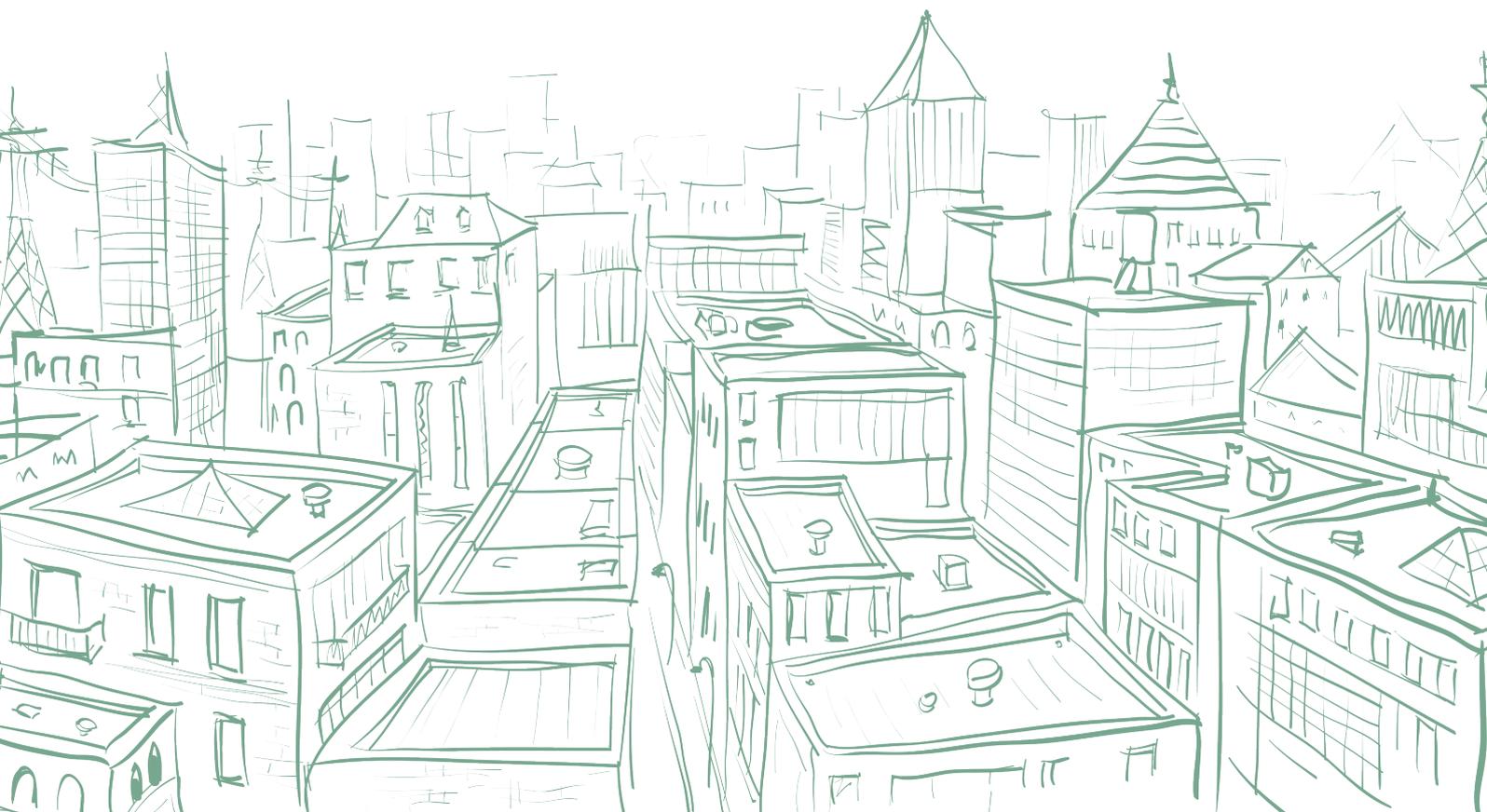
The analysis is based on the criteria of EMES (International Research Network) for mapping social enterprises in order to obtain comparable results with current studies conducted at EU level. In addition, the Macedonian context is compared with the minimum criteria of each of the dimensions to identify the fields where promotion is needed in order to achieve full compliance.

## **1.1 HISTORY OF THE SOCIAL ENTERPRISES IN NORTH MACEDONIA**

The first practice of social entrepreneurship in Macedonia was recorded back in 1900, when numerous voluntary associations, cooperatives and other forms of autonomous association were operational (Sivchev and Randelovic, 1966: 11). Their dominant activity was the publication of informative newsletters (Trajkovski et al., 1999). In the following period, additional forms of social-entrepreneurial practice were identified, such as: the first consumer cooperative (1900), the first Chamber of Commerce of Macedonia (founded in 1922) and youth cooperatives (in 1938). However, the predecessors of the practice of social enterprises in Macedonia reached their greatest development peak in the period after the end of the Second World War (1945-1991). Forms with the longest tradition, which have spurred the development of new forms of economic cooperation, while promoting solidarity and self-help, include: 1) protective companies; 2) social organizations; 3) trades. In this period, numerous local communities and informal networks and associations of citizens were identified (Trajkovski et al., 1999: 12). All these initiatives can be considered a positive legacy, which paves the way for the emergence of modern social enterprises. After the independence of Macedonia, the transition from a planned to a market economy was accompanied by intensified economic, political and social problems. As a result, part of the existing practice in the field of social entrepreneurship continued its operational activities, nourishing, at the same time, the historical heritage and the continuity of its predecessors, while other entities, such as youth cooperatives, completely disappeared.

# 2

## METHODOLOGY AND SAMPLE DESCRIPTION

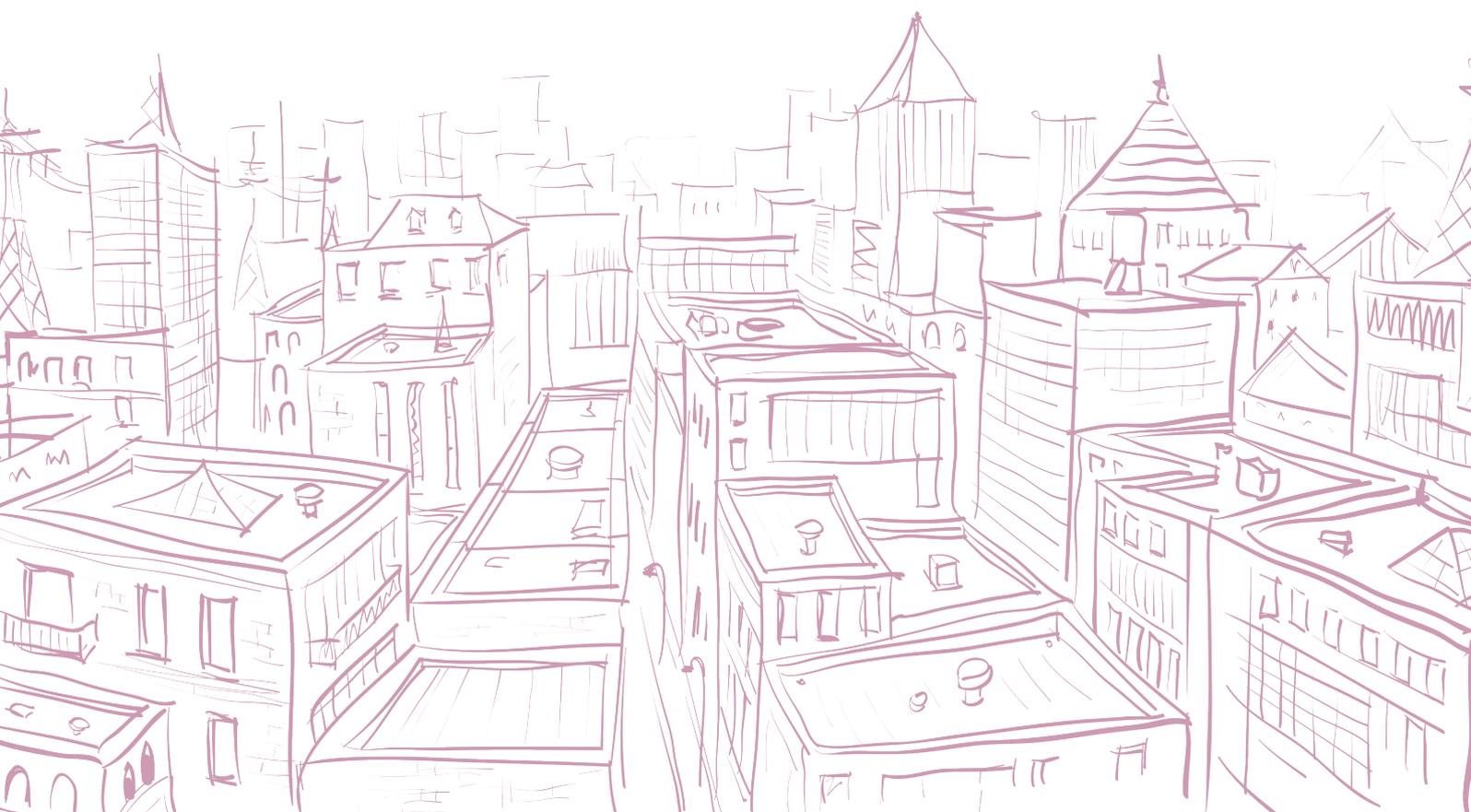


The capacity assessment of existing social enterprises in North Macedonia is aimed at perceiving the potentials and obstacles to the development of these entities, and provides insight into the existing ecosystem for the development of social enterprises in the country. The research was conducted in the period from November 2017 to March 2018, covering the Skopje (20), South-western (4), Pelagonia (4), Polog (2), Vardar (2), Southeastern (4), Eastern (1) and the Northeastern Planning Region (2).

The Association for Research, Communications and Development “Public” analyzed all social enterprises recorded in its database and monitors developments in this field and records the social enterprises created by associations of citizens, as well as by enterprises, whose way of operation is based on the criteria for social enterprises. Two cooperatives were included in this research. For the purposes of this research, interviews were conducted with representatives of 39 registered entities, through qualitative research, in order to gain a more detailed insight into the development of their social and economic dimension and their management structure, and to understand the environment in the country that enables their development. In order to obtain comprehensive data for social enterprises, a semi-structured questionnaire designed for this research was used.

# 3

## ANALYSIS OF THE CAPACITIES OF SOCIAL ENTERPRISES IN NORTH MACEDONIA



### 3.1 ENTREPRENEURIAL / ECONOMIC DIMENSION OF SOCIAL ENTERPRISES

**GENERAL DEFINITION:** Social enterprises have stable and continuous economic activities, thus showing typical entrepreneurial characteristics that are common to other enterprises (EMES, 2018).

**MINIMUM CRITERION ACCORDING TO THE DEFINITION OF EMES:** Social enterprises must be market-oriented (at least 25 percent of the total annual turnover should be from an economic activity).

**APPLICABILITY OF THE CRITERION IN THE MACEDONIAN CONTEXT:** In general, existing social enterprises in North Macedonia have hybrid business models. Financial sustainability is a challenge for everyone, regardless of the legal form under which they were registered. Most of the social enterprises are registered as associations of citizens and the income from economic activities ranges from one to 22 percent of the total annual income. Hence, further strengthening of the sector is required in terms of improving the entrepreneurial skills and promoting non-profit entrepreneurship as a concept, including improving the records on economic activities at the level of the organization.

**The conducted research confirms that in North Macedonia entities that are recognized as social enterprises are registered under different legal forms.** However, the most dominant legal form is the associations of citizens, which are at the beginning of the development of their entrepreneurial activities. A total of 31 of the entities in the sample are registered as associations of citizens, five more as limited liability companies, two as cooperatives (one as an agricultural cooperative and the other as a consumer cooperative) and one entity is registered as a craftsman.

**In general, social enterprises in North Macedonia are active in a narrow range of activities,** such as the production and sale of organic products, including natural cosmetics, authentic homemade food and other products, recycling and reuse. The entities, on the other hand, which are active in providing services, have been identified in activities such as elderly care, deinstitutionalization of persons with disabilities and their engagement, support for persons addicted to drugs, alcohol and gambling, support and education of women who are pregnant or breastfeeding. Some of them are also involved in non-formal education, culture and art, publishing, etc.

**In practice, the social enterprises in the country have a hybrid business model** and the income from the economic activities depends on the legal form of the entity. Almost 70 percent of the surveyed social enterprises, in addition to the economic ones, also have other activities that are project-oriented and implemented through grants. Entities, whose primary focus is on economic activities, are those that are registered as a limited liability company (LLC) or a single member limited liability company (SMLLC) and the cooperatives. The interviewed representatives of social enterprises in the country are mainly dependent on foreign donor assistance, with 87.71 percent of them working with grants from donors. There is a noticeable absence of financial support from the local self-government, the Government and other public institutions.

**Social enterprises registered as CSOs do not keep a clear record of the revenue generated from economic activities.** Some of them are at the very beginning of their operation, while others sell their products mainly to bazaars and fairs and the funds received by their producers are always very modest and paid in cash. Entities that were able to cite accurate revenues from economic activities, record an income of one to 22 percent derived from those activities.

The sample includes a social enterprise registered as an association of citizens, which participates in the implementation of the deinstitutionalization process, with 90 per cent of the annual income generated from the provision of this service, whose customer is the Ministry of Labor and

Social Policy.

***We receive funding to implement the deinstitutionalization process. For every user that we deinstitutionalize, we get MKD 18.000 per month, which is far from enough to cover all costs associated with that person. As an organization we do not have project capacities.***

(representative of an SE from the Vardar planning region)

A total of 65 percent of the social enterprises interviewed have employees. **Existing social enterprises in the country are small entities, with a small number of employees, ranging from one to five people.** The number of SEs that employ more than five people is small, and it is even smaller for those that employ more than 15 people. A total of 125 employees are employed in these entities, out of whom 79 are women and 46 are men, most of them aged from 29 to 45, and 221 are freelancers, some of whom are permanently employed and some only for a single project or season. These entities promote diversity in the employee structure both in terms of ethnicity and education. In mixed ethnic environments, the employee structure in terms of nationality is mixed - Macedonians, Albanians, Roma, Vlachs, however the Macedonian nationality is still dominant.

In enterprises with more than five employees, there is diversity in terms of the level of education - people with no secondary education, with completed secondary education, with completed higher education, with masters and with doctorates, however, the group of employees with higher education is dominant.

**The adoption of active measures remains an unused potential for social enterprises in North Macedonia.** The new operational plans provided a set of measures that could be used by entities with economic activity, such as: practical work, subsidized employment and support for self-employment, opening job opportunities for everyone and a measure for employing people with disabilities, but they are only used by 30.76 percent of the surveyed entities

***The trainings we received at Employment Service Agency of the Republic of North Macedonia were inadequate; I can't believe how ignorant they think we are. Their protective measures are an obstacle to us. I need to find a supplier who will send me a provisional invoice that should be approved in the UNDP, which takes days so we no longer know whether the seller has what we need in stock. Sheer bureaucracy. Once the provisional invoice has been approved, I must take it to the supplier and then wait for a month until UNDP pays.***

(representative of an SE from the Skopje planning region)

Some of the social enterprises wanted to undertake measures, but they failed due to bureaucratic obstacles, lack of capacities and knowledge and failure to fulfill the established conditions for using the measures.

***Our association has never had employees, but it strives to empower women to open their own business. But there is something problematic with the active measures, my impression is that they are often abused and that it is agreed beforehand where they will be assigned. Women have ideas and want to work, but nobody gives them a chance to prove themselves. We need a little support from the business sector and the local self-government.***

(representative of an SE from the Southwest region)

In general, social enterprises are not competitive in the public procurement market. An extremely small proportion of social enterprises apply for public procurement tenders and do not see public procurement as a source of funding and securing economic sustainability.

***JWe registered through the public procurement system, but it's all in vain when we have to go with the lowest price. We work with a disadvantaged group and we have experienced shrinkage of the product. We have to include the assistants working with people with disabilities in the price.***

(representative of an SE from the Skopje planning region)

A total of 35 percent of the interviewed social enterprises included in the sample have no employees. Some of them decided to work as freelancers due to the irregularity of income, and others work on a solidarity (religious) basis, with one of the entity's approach to work only as volunteer being particularly noticeable.

***We are here because we want to help. The center covers our cost of living, but we do not work for a compensation. We are Christians, we do this out of love. I used to be an addict, but, thank God, I put my life back together. Now we want to help, just like someone helped us.***

(representative of an SE from the Skopje planning region)

Almost 70 percent of the social enterprises included in the sample are social enterprises for work integration, providing employment and/or job positions for vulnerable categories of citizens: persons with mental and physical disabilities, members of the LGBT community, Roma people, single parents, victims of family violence, people with psychiatric problems. Six of them work on support programs, picking up healthy lifestyles and mainly use an individual approach, whereas seven of them develop trainings in accordance with the needs of the people involved in the integration process. Other SEs do not have structured support programs for disadvantaged groups of people, except for the opportunity they provide for work inclusion.

***Among the employees we have a single mother of three children, a mother of a drug addict infected with HIV, two transgender people who have been rejected by the community, members of socially disadvantaged families who have no income and no education. They mostly work as kitchen assistants, dishwashers, chef's assistants. The chefs and the receptionists are professionals. They are on a minimum salary, as prescribed by law, but it is important that their insurance covers full working hours and that they are active and employed.***

(representative of an SE from the Southwest planning region)

Most of the work integration entities emphasize the need for additional knowledge in terms of the integration processes.

***Training and sharing of experiences are always needed. Three or four years ago, we thought that people with mental disabilities couldn't work until we went to an organization in England and saw for ourselves.***

(representative of an organization from the Northeast planning region)

### 3.11 ENTREPRENEURIAL / ECONOMIC DIMENSION OF SOCIAL ENTERPRISES

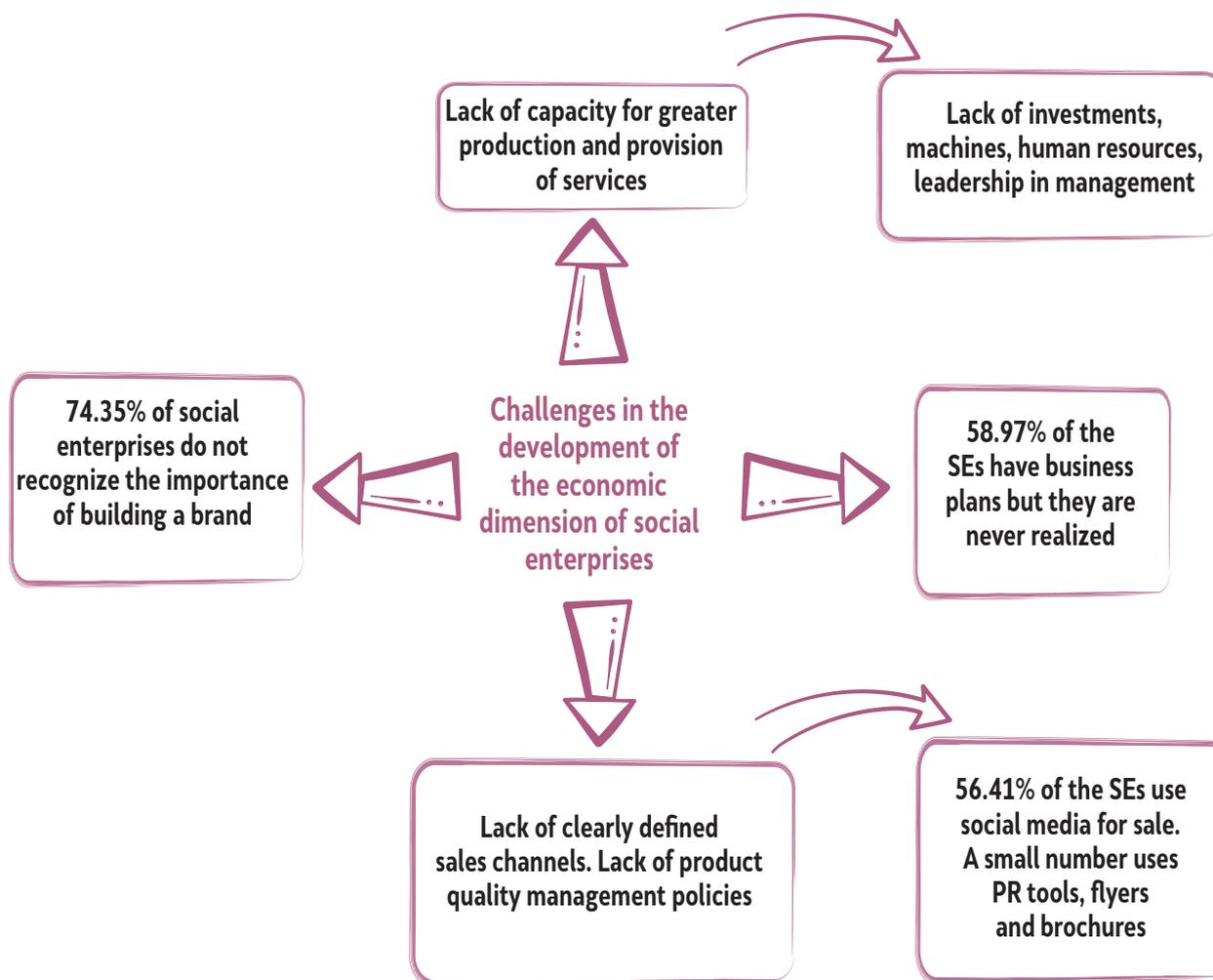


Figure 1: Overview of the challenges of the social enterprises in the development of the economic dimension

The social enterprises in the country have significantly smaller capacities for production and provision of services. The majority of the SP, i.e. 58.79 percent, developed business plans through support programs for development of social enterprises in the country, but they do not harmonize their work in accordance with these documents. A small proportion of them are satisfied with their business plans and state that they had contributed to the development of their SEs.

***I had an excellent mentor, who I selected from the UNDP list. We made a detailed plan and, frankly, it had an impact on our work.***

(representative of an SE from the Skopje planning region)

Most of the existing enterprises have a problem with the placement of their products, they have no defined sales channels and information about their products and services is often transferred by word of mouth, without a developed sales strategy.

More than half of the enterprises interviewed are not satisfied with their sales. The limited infrastructure and human resources and the lack of machines largely prevent them from realizing their plans. Most of the entities that are not satisfied with the sales of their products and services are more focused on getting donations than on the development of economic activities.

Most of the existing SEs stated that they did not have the capacity for greater production and sales or service delivery. The ones that had such capacity explained that they remained at the same level of sales due to the inability to place their products and services on the market. As additional obstacles to their development, they point out the lack of investments in the social economy, which they believe can be obtained from the municipality, lack of human resources, insufficient knowledge of business development, insufficient marketing and promotion, but also the passivity on their part, that is, the inadequate development of economic activities and dependence on grants.

**On the other hand, only 20 percent of social enterprises clearly indicate the type of investment they need**, such as buying machines, opening a basic or an additional production plant, opening a certified lab and opening a warehouse with the appropriate storage conditions.

**A total of 74.35 percent of the social enterprises interviewed failed to recognize the importance of building a brand or explained that they didn't have the time for such activity in addition to all the other activities they dealt with.** A small proportion of them, or only 15.38 percent of the sample, try to take steps in this direction by themselves, although there is no clear understanding of the need, and also point to financial constraints. Social enterprises in the country mainly advertise on social media, i.e. a total of 56.41 percent. Very few of them use public relations tools. They believe that word of mouth is the most successful marketing strategy. A small number of them produces brochures and leaflets with their products and services.

**In general, the surveyed social enterprises lack vision and leadership.** There is a lack of awareness that the entrepreneurship they practice is, in fact, the new leadership, which has the capacity to change local development in the country. They say they need financial support to better develop their business, but they can not give a clear strategic explanation how to maintain their business. Some of them, however, have their visions, but they are too passive in the realization of their ideas. These are mainly smaller organizations driven by persons that also work (employed) in other entities, or organizations that mostly work with grants, but also try to develop their own economic part.

## 3.2 SOCIAL DIMENSIONS

**GENERAL DEFINITION:** The social dimension is defined by the purpose of the entity and / or the product / service supplied.

**GOAL:** Social enterprises must have an explicitly defined social purpose to serve the community or a specific target group. The term "social" should be considered in a broader sense and include the provision of cultural, health and educational services, as well as services for the protection of the environment. By promoting the general interest, the SEs exceed the traditional orientation towards the owners and shareholders.

**PRODUCT:** In the event that the SP fails to create a product through social and work integration of vulnerable categories of citizens, it must provide a product / service that has a social value.

**MINIMUM CRITERION ACCORDING TO THE DEFINITION OF EMES** The social goal must be clearly defined in the national legislation, the statute of the SE or in other appropriate documents.

**APPLICABILITY OF THE CRITERION IN THE MACEDONIAN CONTEXT:** The social dimension of social enterprises is, in fact, the most developed of the three dimensions that characterize social enterprises in North Macedonia. Almost 56.41 percent of the surveyed social enterprises have a twofold social mission, at the same time pointing to the problem of non-inclusive labor market and unemployment of various vulnerable categories and contributing to the preservation of the environment.

The missions of social enterprises in North Macedonia are aimed at achieving social change and creating equal opportunities for the target groups with which they work.

**Almost 56.41 percent of the surveyed social enterprises have a twofold social mission**, at the same time pointing to the problem of non-inclusive labor market and unemployment of various vulnerable categories and contributing to the protection of the environment. Activities in the field of environmental protection include cultivating and selling of chemically untreated food, solving the problem of excess food, clothing and furniture that end up in landfills, recycling plastic waste and raising environmental awareness through informal education.

Other social enterprises are focused on providing services such as help and support services for pregnant women, elderly people and stray dogs, affecting the reduction of the stigma in terms of mental health problems, reducing discrimination against persons with disabilities, raising awareness for the preservation of tradition. **Hence it can be concluded that the existing social enterprises in the country work on solving the existing social problems and providing the necessary services at the local level.** Since early in their development, the identified social enterprises have been guided by their mission. Almost 65 percent of the surveyed social enterprises identify the motive for their establishment in the need to integrate and strengthen economically inactive citizens, such as women, single parents, people with disabilities, people with mental health problems, Roma people, socially disadvantaged citizens, etc. Some of the social enterprises have been developed by the members of these vulnerable groups of citizens, which points to one of the dynamics of the development of social enterprises, which refers to the capacity of the society to organize itself.

***Marginalization of single parents is mainly the result of an economic problem. It is key. These families are economically weak because they've been ignored by the state institutions. The only way to strengthen them is to give them a chance to be involved in an economic activity.***

(representative of an SE from the Skopje planning region)

***Many of the women have never had a job before, they used to work in agriculture and now they are dependent on men. These women worked, but never owned any land, acquired any rights nor paid contributions and now they are dependent persons. Many times they have complained to me that they are constantly reproached about anything they do or spend, so I started thinking how these women can earn some more money. I saw the announcement in "Smart start" and I signed up. We are now developing the story of economic empowerment of women working in agriculture who are dependent on their men.***

(representative of an SE from the Southeast planning region)

***The persons with disabilities that we work with have different skills, but they are unused. If placed in professional rehabilitation programs and trained for a particular work skill, they could enter the open labor market. That's why we need our social enterprise. The people, however, who need help and support, will remain within the social enterprise.***

(representative of an SE from the Northeast planning region)

### 3.3 GOOD GOVERNANCE

**GENERAL DEFINITION:** To identify needs and incorporate all appropriate factors into the design of appropriate solutions, social enterprises should have specific ownership structure and governance models that allow stakeholders to participate at different levels. The SEs explicitly limit the distribution of profits, whereas transferring assets is prohibited. Limiting profit distribution aims to provide protection of the general interest and it can be operationalized in many ways (EMES, 2018).

**MINIMUM CRITERION ACCORDING TO THE DEFINITION OF EMES:** The SEs must ensure that the interests of all stakeholders are appropriately represented in the decision making process. in e sjelljes së vendimeve.

**APPLICABILITY OF THE CRITERION IN THE MACEDONIAN CONTEXT:** In Northern Macedonia, there is no social recognition of good governance as a concept and no social capacities for its implementation. Good governance is formally practiced only at the level of entities that are obliged to do so by the legal framework according to which they were registered, as is the case with the Law on Associ

**In general, good governance in social enterprises in North Macedonia depends on the legal form under which they were registered.** SEs registered as associations of citizens that, according to the research amount to 69.23 percent of the entities, apply good governance principles in accordance with the legal framework, such as: assembly, board of directors, president of the association and / or executive director, with some of the organizations even establishing a supervisory board. However, more than half of the entities explained that some of the bodies exist as a formality and that in practice they face a lack of human capacities for these bodies to operate.

**The legal form also regulates other good governance principles, such as the prohibition of transferring the property of the legal entity and regulation and distribution of profits.** The legal framework for associations of citizens and foundations and the legal framework governing the work of cooperatives prohibit transfer of property. Other social enterprises, operating under the Company Law, do not have such restrictions on the transfer of property. Additionally, in North Macedonia, none of the existing legal frameworks regulates the ratio of salaries between management and employees, thus there are no mechanisms for regulating the indirect distribution of profits. In the country, only associations of citizens and foundations are explicitly prohibited to distribute profits to management and stakeholders. Profits, in accordance with the law, must be reinvested for the purpose of accomplishing the mission. Cooperatives, in accordance with the Law on Cooperatives, can also allocate some of their profit for another purpose, with each year at least five percent of the profits must be invested in the cooperative's reserve fund.

**In general, the interviewed social enterprises lack internal procedures for regulating internal management and decision-making.** Only the larger social enterprises, which have employees of their own, have developed procedures, but some of them maintain that they do not always succeed in their implementation.

***We have many procedures. Some of them we put into practice and others are hard to accept. This is Macedonia, you know, just as the laws in the country are respected, so are the procedures in the organizations.***

(representative of an SE from the Southeast planning region)

Entities registered as LLC and SMLLC have a clear social mission and an owner or owners whose goal is to create a sustainable business, but none of them has developed procedures for participatory management and for them this concept remains unused and unrecognized potential.

The majority of the surveyed entities, i.e. 71.79 percent, do not have a defined organizational structure, systematization of jobs and measurement of the characteristics of the employees. Those that have a developed organizational structure are mainly large associations of citizens with clearly defined strategic goals, cooperatives, as well as entities registered as firms.

**The social enterprises interviewed recognize the importance of building partnerships with representatives of local government, central government, religious communities and the business sector.** 51 percent of social enterprises cooperate with the local self-government as support in capacity building at the local level and on the implementation of inclusive programs. Only three municipalities provide financial support, on an annual basis, for the activities of social enterprises that work with vulnerable groups of people, while simultaneously developing economic activities involving these people.

A total of 30 percent of the enterprises managed to develop cooperation with the **central government**, which is mainly based on participation in working groups and bodies, primarily in the field of social policy, work on strategic documents and policy making. Five percent of the social enterprises cooperate with the Ministry of Labor and Social Policy, i.e., the Ministry pays/co-finances the services provided by these entities. An additional 7.6 percent of these entities cooperate with the Ministry of Culture, and another five percent with the Ministry of Economy. Only 10 percent of the social enterprises have a good cooperation with religious organizations, which relates to the allocation of arable land for use, donations of food and clothing, provision of funds for activities.

33 percent of the SEs have some cooperation with **enterprises**, but only 10 percent of maintain a continuous cooperation.

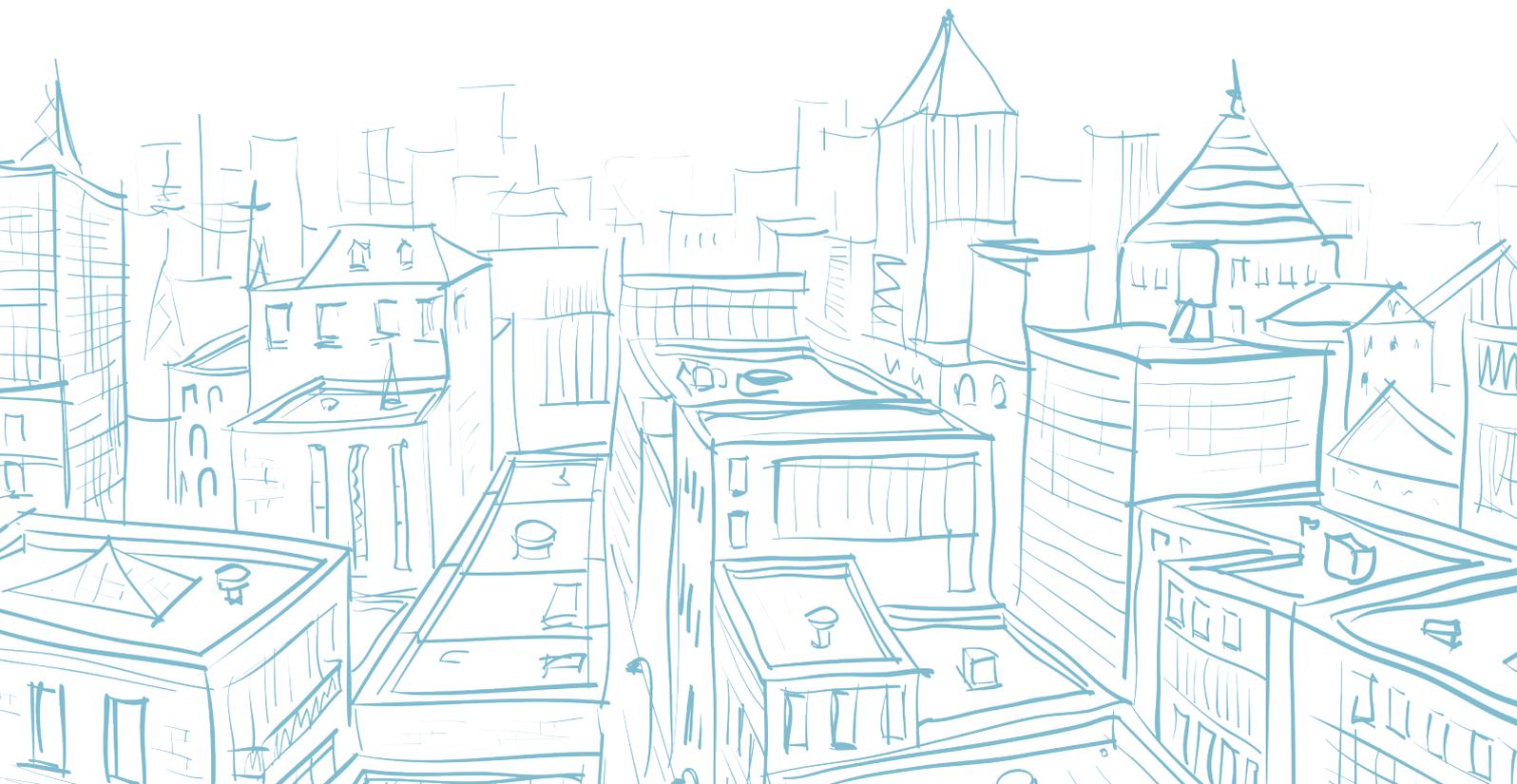
***Local business not only employs our users, who were previously active in our SE, but often provides us with food, personal hygiene products and lunch and donates work materials.***

(representative of an SE from the Southwest region)

**The mutual cooperation among social enterprises is still at the basic level.** They mainly associate for the purpose of advocating and lobbying for common goals, exchanging services and products, ensuring the promotion of products and services, engaging in joint activities, sharing working spaces, helping in capacity building and starting partnerships during sale. Some of them explain that they support one another, but they do not have any specific and clearly defined cooperation among themselves. On the other hand, the experience from other countries in the European Union confirms that networking and the existence of mechanisms for supporting social enterprises that are non-monetary can be of great importance for their impact. Hence, the establishment of a national social enterprise network should be a priority.

# 4

## CAPACITY BUILDING OF THE SECTOR: CHALLENGES AND NEEDS



The social enterprises from the eight regions saw the need to build their capacities and 95 per cent of them attended development trainings. They list study visits and direct consultations, i.e. mentoring meetings, as very effective for their institutional development. They thought that some of the trainings they visited were ineffective, emphasizing that they were repetitive and focusing on only one segment (taking into account the business component, without considering the social mission).

***KWhen we told them that they could not do that and that we were dealing with social entrepreneurship, they were on the side of hard capitalism, saying that we should take the money of our clients. We responded that in that case we would work something else, and that our stories were different.***

(representative of an SE from the Skopje planning region)

They underlined the increasing number of available trainings for capacity development in the sector is increasing, but at the same pointed to the lack of support in line with the current needs, obstacles and challenges.

***Now I need only financial support, nothing more than that. I think we should stop talking because we already know each other and start talking. We all come to the same events and share our ideas. Now it's important that someone supports these ideas, because they need to be implemented.***

(representative of an SE from the Skopje planning region)

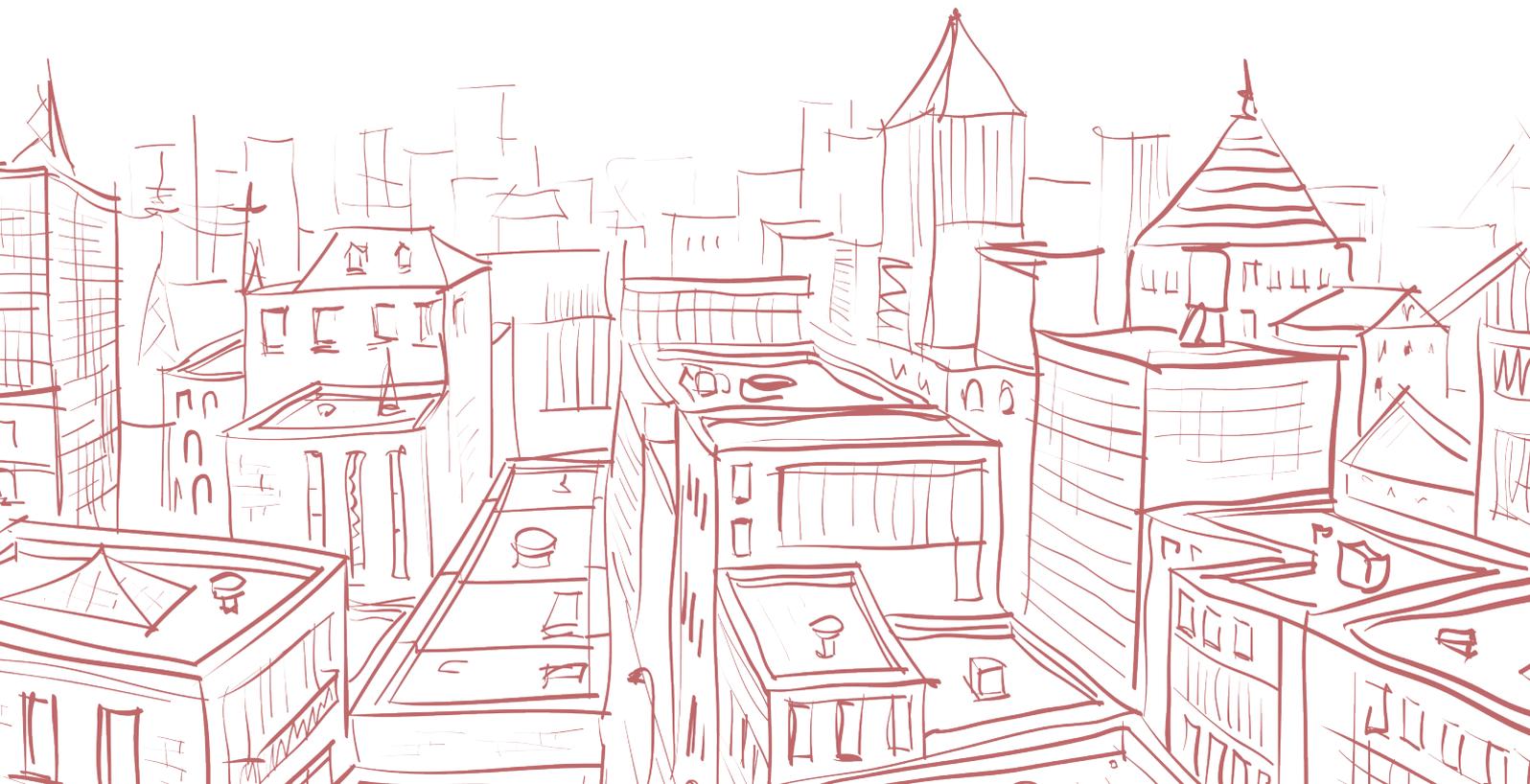
**Some of the social enterprises have projections in terms of which segment should be upgraded:** planning and business development, marketing, communications and public relations, creating a recognizable name, online sales and legal forms and opportunities, whereas others also emphasize the need for improvement in the area in which they operate - organic production with certificate, waste management and circular economy, development and professional advancement of the target group, additional education and retraining of adults, as well as expert knowledge for medical assistance to addicts in crisis situations.

As main obstacles, they point to the lack of investment in the area, the lack of interest of the state to give benefits to the work of these entities (to allocate a budget for contributions and / or space), lack of a legal framework, lack of public awareness, lack of human resources.

*Many laws need to be changed and institutions should become more open to the SEs. At the moment, the civil sector knows what a social enterprise is, but not the institutions. For example, I need to prepare a survey on safety at work for each user. I work with vulnerable groups, but as an end user I have a grandfather who lives in a dilapidated house. Do I have the capacity to prepare a survey on safety at work for each user? The inspectors, on the others hand, operate in line with a plan of their own, which doesn't include separate elements for social categories.*

# 5

## CONCLUSION



The conducted research that is the subject of this analysis confirms that the existing social enterprises face numerous challenges such as the registration process, ensuring financial sustainability, lack of human capital and capacities that will make them competitive in the open market, absence of political recognition and innovative financial instruments, and support mechanisms in accordance with the development phase they are in.

It is necessary to improve the capacities of the social enterprises in order to increase their competitiveness on public tenders; otherwise, the reserved procurement prescribed by the new Law on Public Procurement will remain an unused opportunity and potential. Additionally, social enterprises should be provided with access to a wider set of services, which will enable them to prepare for investments.

### **ECONOMIC DIMENSION**

The dominant legal form of entities that are recognized as social enterprises in Northern Macedonia is the association of citizens where the development of entrepreneurial activities is in its beginning. In addition, there are forms of limited liability companies and cooperatives, and only a small number of them are craftsmen. Existing social enterprises in the country are small entities, with a small number of employees, ranging from one to five people. The number of entities that employ more than five people is small, and it is even smaller for those that employ more than 15 people. Women are more often employed than men in these companies and most of them are aged 29 to 45 years. The number of persons who are freelancing, some of whom are permanently hired and some only for a single project or a season, is higher than the number of employees.

The interviewed social enterprises in the country are mainly dependent on foreign donor assistance. There is lack of adequate support from the Government, the public institutions and the local self-government. The adoption of active measures remains an unused potential for the existing social enterprises. Only a third of the interviewed entities used active employment measures, such as measures for practical work, for subsidized employment and self-employment support, for opening job opportunities for all and for employing people with disabilities.

Most of the existing social enterprises have a problem with the placement of their products, they have no defined sales channels and information about their products and services is often transferred by word of mouth, without a developed sales strategy. The limited infrastructure and human resources and the lack of machines largely prevent them from realizing their plans. In general, social enterprises are not competitive in the public procurement market. Very few of them apply for public procurement tenders and do not view public procurement as a source of funding and providing economic sustainability.

### **SOCIAL DIMENSION**

The social dimension of these entities is, in fact, the most developed of the three dimensions. Half of the surveyed social enterprises have a twofold social mission, at the same time pointing to the problem of non-inclusive labor market and unemployment of various vulnerable categories and contributing to the preservation of the environment. For most of the social enterprises interviewed, the social mission can be identified in the very motive for enterprise development. Motives are identified in the need to integrate and strengthen economically inactive citizens, such as women, single parents, people with disabilities, people with psychiatric disorders, Roma, socially disadvantaged citizens, etc. Some of them are created by people on the margins, which points to the dynamics of the development of social enterprises and the capacity of the society for self-organization.

### **GOOD GOVERNANCE**

The surveyed entities fail to recognize good governance as a concept and the social capacities required for its implementation.

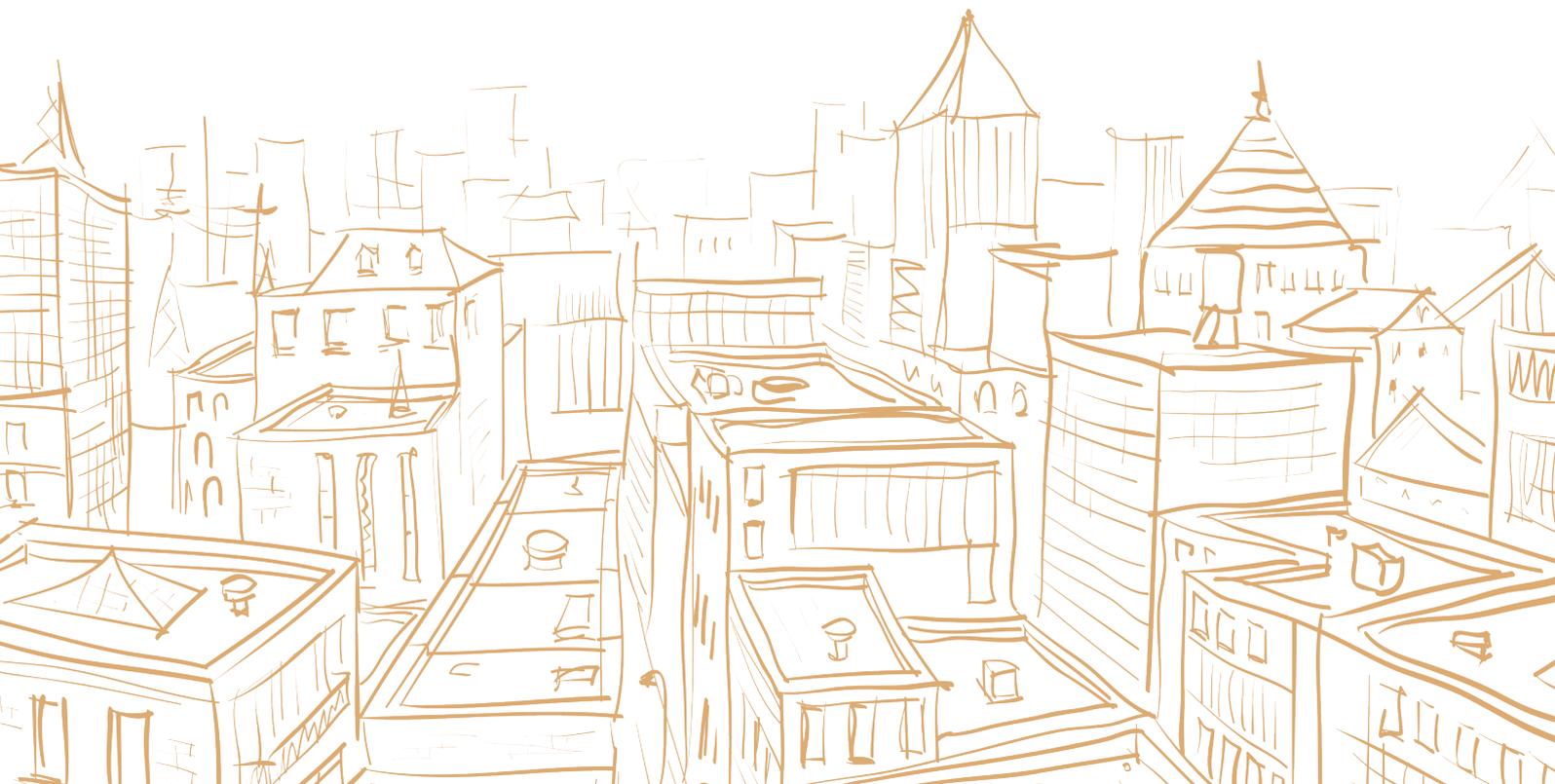
The research confirms that good governance is formally practiced only when it is prescribed by the legal framework.

Hence, good governance is not applied as an inseparable part of the quality of work and the provision of a service / product.

The principles of good governance, such as a defined management structure, the prohibition of transferring the property of the legal entity and the distribution of profits, are practiced only to the extent imposed by the legal framework under which the entity functions. However, the research confirms that even when good governance is imposed by the legal framework, it is not always put into practice, primarily because of the absence of human capacities and the management's failure to recognize its value. Social enterprises registered as associations of citizens have the strongest good governance principles.

# 6

## RECOMMENDATIONS



## **6.1 PUBLIC POLICY RECOMMENDATIONS**

- 1) Creating a positive legal framework that will regulate the process of obtaining a social enterprise status in North Macedonia;
- 2) Coherence of donor policies and government policies;
- 3) Creating a positive tax policy and fiscal benefits for the recognized legal forms of social enterprises;
- 4) Monitoring the implementation of the reserved procurement provided for in the new Law on Public Procurement, whose application is envisaged to begin in April 2019;
- 5) Creation of innovative financial instruments for the support of social enterprises;
- 6) Creating a government fund for the support of social enterprises;
- 7) Adjusting the active employment measures to the needs of the social enterprises;
- 8) Development of credit lines for SEs, which will encourage them to take investment measures aimed at achieving financial sustainability (low interest rate, grace period of two to five years);
- 9) Encouraging partnership and networking at local and municipal level and among social enterprises in a particular region;
- 10) Transparency in the public policy for social enterprises, including active measures targeted at the SEs.

## **6.2 RECOMMENDATIONS FOR TRADITIONAL BUSINESS (PROFIT-ORIENTED ONLY)**

- 1) Including social enterprises in a procurement system for raw materials, processing of spare parts, outsourcing, transport belonging to the traditional business;
- 2) Exchanging experiences with social enterprises in relation to business planning, public relations, creating a recognizable name, conquering markets, communication and customer care, etc.;
- 3) Mutual partnership between the social enterprises and the traditional business in the development of innovation.

## **6.3 RECOMMENDATIONS FOR SOCIAL ENTERPRISES**

- 1) Extending the scope of action in a large number of social spheres where there is room and necessity for private operators;
- 2) Using financial instruments (active measures, credits) adapted to the conditions for operation of the social enterprises in the country and sharing positive stories in order to encourage more entities;
- 3) Developing sustainability plans for social enterprises;
- 4) Developing a mentoring system for social enterprises;
- 5) Applying good governance practice;
- 6) Developing a national social enterprise network to acquire knowledge about the practice and the social impact of these entities.

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